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COMMITTEES:  
MUNICIPAL OVERSIGHT &  
ELECTIONS  
NATURAL RESOURCES,  
ENERGY & WATER

LEGISLATIVE COUNCIL

DISTRICT 11

October 18, 2023

Rene Guillen, Chair  
Arizona State Retirement System Board of Trustees  
3300 N Central Ave  
Phoenix, AZ 85012-0250

Dear Chair Guillen,

We appreciate your stewardship of the Arizona State Retirement System ("ASRS"). Congratulations to you and your fellow board members and staff on achieving 10-year returns in the top 5th percentile of peer pension funds.<sup>i</sup> However, ASRS's real estate investments are dragging down overall performance. The fund's real estate portfolio has returned 6.43% since inception versus overall fund performance of 9.55% as of June 30, 2023.<sup>ii</sup>

We write in the interest of strengthening and protecting ASRS returns. As you may be aware, in July hotel workers at the Fairfield and Aloft hotels near LAX airport, owned by ASRS investment manager Blackstone Group, have gone on strike following the expiration of their union contract – which could decrease returns for ASRS.

Arizona State Retirement System has invested a total of \$840 million with Blackstone as of June 30, 2023.<sup>iii</sup> The Fairfield and Aloft hotels near LAX are owned by Blackstone Real Estate Partners VIII and the Sheraton Phoenix hotel is owned by Blackstone Real Estate Partners IX and operated by the Marriot Hotels. ASRS invested \$100 million in Blackstone Real Estate Partners VIII but did not invest in Blackstone Real Estate Partners IX.

Workers at Blackstone-owned hotels are asking for living wages, affordable health care and a safe and humane workload. In July, Blackstone became the first \$1 trillion private equity manager, yet many workers at its hotels still live in poverty, and Blackstone-owned Packer Sanitation was forced to pay a \$1.5 million fine to the U.S. Department of Labor after an investigation determined it employed more than 100 minors as young as 13 in hazardous occupations at 13 meatpacking plants in eight states.<sup>iv</sup>

Moreover, labor disputes can undermine investment value.<sup>v</sup> Brian Becker, Associate Professor of the State University of New York-Buffalo and Craig Wilson, Associate Professor at the University of Wisconsin-Madison, found strikes substantially affected shareholder equity as measured by the change in stock prices associated with strikes.<sup>vi</sup> Sophia J. W. Hamm of Ohio State University, Boochun Jung of the University of Hawaii at Manoa and Woo-Jong Lee of Seoul National University found that "the costs imposed by non-cooperative labor, such as strike costs, inefficient production, or a damaged reputation in the labor market, can be detrimental."<sup>vii</sup>

This risk can be mitigated through labor peace agreements, which protect investors from strikes, picket lines, boycotts and other disruptions associated with labor disputes.

We urge ASRS to inform Blackstone Group in writing that, consistent with the fund's interest in mitigating investment risk, the fund will not re-invest with Blackstone until the firm resolves contract disputes at the Fairfield, Aloft and Sheraton Phoenix and ensures that Blackstone can guarantee labor peace at its hospitality investments in Southern California and Arizona.

Regards,

A handwritten signature in black ink, appearing to read "O. De Los Santos".

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Senate Democratic Asst Leader, Juan Mendez, LD 8

House Democratic Whip, Melody Hernandez, LD 8

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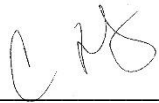
Representative Alma Hernandez, LD 20



Representative Betty J Villegas, LD 20



Representative Stephanie Stahl-Hamilton, LD 21



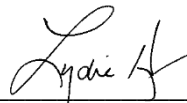
Representative Consuelo Hernandez, LD 21



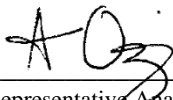
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<sup>i</sup> ASRS Investment Committee Packet for 10-4-23, Page 70,  
<https://www.azasrs.gov/sites/default/files/pdf/IC%20packet%20OCT%204%2C%202023.pdf>

<sup>ii</sup> ASRS Investment Committee Packet for 10-4-23, Page 81,  
<https://www.azasrs.gov/sites/default/files/pdf/IC%20packet%20OCT%204%2C%202023.pdf>

<sup>iii</sup> ASRS Investment Committee Packet for 10-4-23, Page 170,  
<https://www.azasrs.gov/sites/default/files/pdf/IC%20packet%20OCT%204%2C%202023.pdf>

<sup>iv</sup> “U.S. fines firm \$1.5 million for hiring kids to clean meatpacking plants,” Lauren Kaori Gurley, February 17, 2023, <https://www.washingtonpost.com/business/2023/02/17/child-labor-meatpacking-department-of-labor/>

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- <sup>v</sup> Entertainment Stocks Slump as Hollywood Strike Widens to SAG-AFTRA, Lucas Manfredi, July 14, 2023, <https://www.thewrap.com/sag-aftra-strike-disney-warner-bros-discovery-netflix-stocks/>
- <sup>vi</sup> “The Impact of Strikes on Shareholder Equity,” ILR Review, Brian Becker and Craig Wilson, 1986, 39(3), 425–438. <https://doi.org/10.1177/001979398603900309>
- <sup>vii</sup> “Labor Unions and Income Smoothing,” Sophia J. W. Hamm, Boochun Jung, Woo-Jong Lee, July 6, 2017. <https://doi.org/10.1111/1911-3846.12321>